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Northeast Asia's Economic Development and the Trend Toward Regionalism

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Internationalization and regionalization are two obvious tendencies appearing in the current world economy, and the relationship between the two is parallel development and mutual promotion. However, the regionalizing tendency will play a leading role in the present and future development of the world economy and politics.

BACKGROUND

Although a regional economic group was initiated before World War II, regionalization (regional economic grouping or regional economic integration) is a new phenomenon. The first of its kind is the Council for Mutual Economic Assistance (CMEA), consisting of the former Soviet Union and East European countries. Then the European Economic Community (EEC) of six European countries—France, Germany, Italy, Holland, Belgium, and Luxembourg—and the European Free Trade Association (EFTA) of seven West European countries headed by Britain, came into being respectively in 1958 and 1960. These were followed by a number of other regional economic groupings organized by developing countries: the Latin American Integration Association (LAIA), the Andean Pact Organization (APO), and the Central American Common Market (CACM) in Latin America; the West African Economic Community (WAEC), the Central Africa Economic Community (CAEC), and the Southern African Development Coordination Committee (SADCC) in Africa; the Association of Southeast Asian Nations (ASEAN) and the South Asian Association for Regional Cooperation (SAARC) in Asia; and the Gulf Cooperation Council (GCC) in the Middle East. For more than 30 years after the war, however, regional economic integration had not developed with great momentum. Take the influential EEC, for instance. Many of its projects of integration failed to be carried out in full. In the Asian region, the fairly effective ASEAN is still at its initial stage of economic integration: the primary stage of tariff union. Since the 1980s, the trend toward regional economic grouping has been enhanced obviously in the world economy. The

most conspicuous issues are the European Community (EC) plans to establish a big unified market by 1992; in North America, the U.S.–Canadian Free Trade Agreement came into force in 1989, they are now negotiating with Mexico, and ultimately a free trade zone could be formed in North America. In East Asia, as well, various views have been put forward to form an economic sphere in the region.

Apart from the forming of three big economic spheres, in some small areas the development of multilateral cooperation has been rather quick in recent years. For instance, the South Cone Economic Community was organized by four Latin American countries: Brazil, Argentina, Uruguay, and Paraguay. The Andes Group, consisting of Bolivia, Colombia, Ecuador, Peru, and Venezuela, declares that it will set up the Andes Common Market before the end of 1995. And a new growth triangle was organized by Singapore within the ASEAN (Kepulauan Riau of Indonesia, and Johor of Malaysia). In Northeast Asia, the program consisting of consideration of a Yellow Sea Economic Sphere and Cooperative Development of the Tumen River Delta is also in the category of multilateral cooperation in small areas.

This rising tendency toward regional economic integration can be traced to the following causes. First, the diminishing of the U.S. hegemony, the rise of the Japanese economy, and the further integration of the EC have tilted the balance in world economy and politics, and the world has entered an era of political and economic multipolarization. The world capitalist economic system that formed right after World War II, in which the United States has played a leading role, can no longer function as usual, and the two superpowers—the United States and the former Soviet Union—cannot dominate world politics any longer. In a sense, the European Community is the product of West European resistance to the U.S. and Soviet hegemony. Its member countries have grown from the original 6 to 12, and, with the continuous economic and political union, it has become an important center of world economy and politics. In Asia, Japan has long been the second largest economic power in the capitalist world. As a result of its rapid development in economy and technology, it has surpassed the former Soviet Union in economic strength and the United States in international financial power, exerting an ever-growing influence on world economy and trade. The United States, though weakening relatively, remains the strongest nation in economic and political strength and will continue to be so at least in the remaining decade of this century. The regional economic groupings in various parts of the world are all centered around countries with economic strength and political stability. From this it can be seen that regional economic grouping is a tendency that parallels the multipolarization in world economy.

Second, since the beginning of the 1980's, the growth in world trade has apparently slowed down, trade frictions have exacerbated, and protectionism has been rampant. To extricate themselves from difficulties, many countries have turned to regional economic integration. As a consequence of the reces-

sion in the world economy in the early 1980s and the markedly slower economic growth rate than in the two previous decades in the recovery period that followed, world trade developed much slower than before both in volume and value. The world trade volume during 1969–79, for example, increased by 6.7 percent annually on the average, while the figure for the period 1980–87 was a bit more than 3 percent, less than half of that before. In 1986, the world export value reached $2,133 billion by current value, an all-time high, but in fact the actual figure was even lower than that of 1980 if the inflation factor is taken into consideration! The slower increase and keener competition in export have resulted in a serious trade imbalance, particularly among the developed countries. The conspicuous expressions have been the United States' huge trade deficits and Japan and Germany's large trade surplus for several consecutive years, the constant trade frictions among the United States, Japan, and Europe, and the rise of protectionism. The United States used to stress multilateral free trade, and now it has shifted to demanding "a free and fair trade." Time and again it has resorted to retaliatory measures against what were called the "unfair" trade practices of other countries. To reduce its trade deficits, the United States, while erecting more tariff barriers through raising customs duties and limiting imports, has implemented policies of bilateral preferential treatment and regional special preferential treatment toward the countries concerned. In the meantime, the EC, stuck in economic stagnation (its average annual growth rate in the period of 1980–89 being only 2 percent, lower than the United States' 2.8 percent and Japan's 4.2 percent, but with the unemployment rate approaching double digit), has also been trying to haul itself out of difficulties and improve its competitive posture with Japan and the United State. It has found, it believes, an effective way out in the formation of a unified internal market.

Third, the growing economic internationalization and economic interdependence among countries necessitate the establishment of international economic integrated organizations with relatively stable members. Practice since the war has shown that regional economic groups are more effective organizations of economic integration than loose global international ones such as the Organization for Economic Cooperation and Development (OECD) set up by the developed countries, the United Nations Industrial Development Organization (UNIDO), the United Nations Conference on Trade and Development (UNCTAD), the International Monetary Fund (IMF), and the General Agreement on Tariffs and Trade (GATT). Although these regional groups have a certain exclusive tendency toward economic blocs and countries outside the regions, usually the trade-creating effect is better than that of trade diversifying inside a regional economic group under the condition of rapid development in current economic internationalization and globalization. Regional economic cooperation is not only promoting development of the regional economy but also increasing the world's total production and trade, thus facilitating the overall development of the world economy. Therefore, regional integration is in

itself a necessary transitional process in the realization of global economic integration.

THE BIG UNIFIED MARKET OF THE EEC

The European community, with its 12 member countries, has a population of 320 million, about 6.4 percent of the world total, but its GNP and trade value amount to one-fourth of the world total, and its export constitutes more than half of those of the OCED countries, consisting of 24 developed capitalist countries, put together. Therefore, it occupies a very important place in the development of world economy and trade.

The EC is now actively preparing for the establishment of a unified internal market by 1992, in which there will be a completely free flow of commodities, capital, labor and personnel services. According to the relevant documents of the organization, the following major tasks have been finished or will be fulfilled:

1. In order to formulate a unitary big market, the legislation, consisting of 283 articles, has been put forward. Up to now, about 158 articles (60 percent) have been approved by the EC Commission, including significant measures related to free capital interflow, opening a common purchase market, and unifying the procedures of customs checkout.

2. Foreign currency control has been canceled in France, Germany, Britain, the Netherlands, Belgium, Luxembourg, Italy, and Denmark since 1 July 1990. The same measures will not be executed until the end of 1992 in Spain, Portugal, Ireland, and Greece.

3. Since 1 July 1990, the first phase in setting up an economic and monetary union, initiated to coordinate the economic and monetary policy between the member states, has been executed, and it was decided to initiate the second phase, in which a European Central Bank will be established, beginning in 1 January 1994. The third phase will be introduced not later than 1997 in forming the unified European currency, which will interflow in the market together with the currencies being used in EC countries.

4. As for the interflow in personnel and commodities, an agreement was signed by France, Germany, Belgium, the Netherlands, and Luxembourg on 19 June 1990, which decided to rescind the border checkout. Italy, Portugal, and Spain have also declared that they will accede to the agreement soon.

5. In order to coordinate the increment duty and consumer tax between member states, the tariff rate was limited to 14–20 percent, and the place of levying increment duty has been transferred from the border to inland in Belgium, the Netherlands, and Luxembourg. Although much progress has been achieved in setting up the unitary big market, a number of problems still stand in the way. The member countries, for instance, differ on coordinating their increment duty and on how to institute the unitary European currency. Besides, the United States and Japan, the major trade partners of the EC, are very much worried that the European unified market may become a fortress

of protectionism. However, the process to be set up by the EC will not be reversed—even British Prime Minister John Major said that the progress of history will not be stopped—and the EC will continue its development as well. The EC and European Freedom Union have declared that they will set up a united free trade zone in January 1993, and several Eastern European countries want to take part in EC also. The tendency of formulating a unified big market in the EC is becoming more and more distinct.

THE NORTH AMERICAN FREE TRADE ZONE

In North America, the United States and Canada reached in early 1988 a bilateral trade agreement stipulating that the two countries will gradually reduce and finally waive their tariffs and organize a U.S.-Canadian Free Trade Zone in the 10 years beginning 1 January 1989. Early this year (1990) the United States and Canada initiated negotiations with Mexico, and the U.S.-Canadian Free Trade Zone will possibly be expanded into a North American Free Trade Zone if the negotiations go smoothly. The long-term goal of the United States, as President George Bush has said, is to establish a Pan-American Free Trade Zone including Central and South American countries. This grand goal can hardly be attained in the near future, but the tendency is quite obvious. Some sources say the United States will possibly sign a treaty related to free trade cooperation in the near future with the established South Cone Economic Community consisting of Argentina, Brazil, Uruguay, and Paraguay. And the connection created between the United States and other economic cooperation organizations (for instance, the Caribbean Community) in Latin America is being enhanced also. All these issues indicate that the United States is strengthening, from the economic aspect, connection and control in its backyard in accordance with its existing policy so that it can dominate an American Economic Sphere in the future.

The United States and Canada have a total area of 19.3 million square kilometers populated by 270 million people—about 5.4 percent of the world's total. Their GNP represents 26.4 percent of the world's total. Their production and consumption levels rank high on the world list: the GNP per capita is above $20,000 and $19,000 respectively. The Canadian economy depends heavily on foreign trade; its export constitutes over 30 percent of its GDP, a ratio second only to that maintained by Germany among the seven Western industrial countries. Canada's export to the United States comes to three-fourths of its total value of exports. It has become all the more important for Canada to ensure its export to the U.S. market, since its export to Europe has gradually declined. For with Britain's joining the EC, Canada's exports to Britain can no longer enjoy Commonwealth preference and must be levied the unified foreign tariff of the EC. To the United States, Canada is the biggest trade partner and the most important export market. In recent years, the value of trade between the two countries amounts to over $100 billion per annum on the aver-

age, with one-fifth of the U.S. export, including one-fourth of its exported manufactures, going to Canada. The U.S. export to Canada was 50 percent more than that to Japan. The average tariff rate of Canada on the U.S. export is 5.2% more than the United States' average tariff rate. By realizing free trade between the two countries, and by removing Canada's tariff and nontariff barriers, the United States will be able to enlarge its export to Canada and reduce its trade deficits. The gradual realization of free service trade between the two countries will also enable the United States to give full play to the advantage it enjoys in this field.

The main contents of the U.S.–Canada Free Trade Agreement are as follows: (1) Remove all tariffs and reduce other trade barriers between the two countries; (2) improve and ensure Canada's energy export to the United States; (3) create more opportunities for U.S. financial institutions to enter Canada and, meanwhile, allow branches of Canadian banks to run Canadian government bonds and transstates banking business in America; (4) protect intellectual property rights, patents, and copyrights.

If Mexico decides to join the North American Free Trade Zone before the negotiative limitation (the end of 1992), the significant variations from the economic group of the North American region will be:

1. After Mexico joins, the scale of the whole North American Free Trade Zone will surpass the EC both in population (attaining 365 million of the three countries in total) and the sum of their GNP, (reaching $6,000 billion).

2. Mexico is the third biggest trade partner of the United States, and some two-thirds of the foreign investment entering Mexico is from the United States. The labor cost is rather low in Mexico, where average wages are only one-seventh of those in the United States. The capital and technology from the United States and Canada in combination with the low-priced labor of Mexico will create new competitive superiorities, so that it will be easy for their products to enter markets in other regions. Meanwhile, Mexico itself has a market with a population of 85 million; therefore, its potential will be of great significance to the United States and Canada.

3. Mexico's joining the North American Free Trade Zone will create a precedent of including a developing country in a big economic sphere, and Mexico will play the role of bridge or intermediary when the United States expands the economic connection to Latin American countries. However, an obstruction may appear in the course of negotiation. What worries Mexico is whether equality and mutual benefit could be truly realized inside the sphere after its acceding to the North American Free Trade Zone. Moreover, the AFL-CIO, the biggest organization of labor unions in the United States, also opposes the negotiation. It worries about the possibility that employment opportunities for its laborers will be taken by low-priced workers from Mexico. The U.S. government is trying, from many aspects, to persuade the organization to give up its attitude of opposition. In view of the whole tendency, it is quite possible that the United States, Canada, and Mexico will reach agrement next year (1992) and then set up the North American Free Trade Zone.

THE PROSPECT OF ASIA-PACIFIC ECONOMIC COOPERATION

The Asia-Pacific region has a population of nearly two-thirds of the world's total and is vast in area and very rich in natural resources. The coastland of the Western Pacific in particular, with its rapidly developing economy, has been, and will continue to be for a long time to come, the most vigorous part of the world economy. It is estimated that by the end of the century, the GNPs of Japan, China, and the "Four Little Dragons" put together will roughly equal that of the United States.

Early in the mid-1960s, some people began to advance the idea of establishing extensive economic cooperation around the Pacific Rim. In recent years, some scholars from Japanese institutions have put forward such notions as forming an "East-Asia Economic Sphere" or a "Japan Sea Circle Economic Sphere." People of other countries and areas are also proposing the setting up of a "Yellow Sea Rim Economic Sphere," a "Southeast Asia Economic Sphere," and so forth. These patterns of regional or subregional economic cooperation have something in common: they all try to make the most of the comparative advantages of the countries and areas concerned in a given region in natural resources, technology, and labor force and rationalize their respective industrial structures through mutual technological and economic cooperation, so that each can give full play to its strengths, avert the consequences its weaknesses may incur, and learn from others' strong points to make up its own deficiencies. In this way, a dynamic international division of labor with a comparatively superior combination of productive factors in the region can be effected and regional productive potentialities better tapped, and the international competitive capability of their products increased. However, it is indeed not easy to achieve complete equality and mutual benefit in economic and technical cooperation due to the differences of various countries and areas in their political and economic systems and levels of economic development and the great disparity in their natural resources. Even countries with similar conditions and backgrounds not only complement, but also compete with, one another. In addition, historical and current political disputes may also be influencing the development of economic relations among different countries in a given area or among different regions. For this very reason, although there are nongovernmental consultation bodies such as the Pacific Economic Cooperation Conference and governmental coordinative organs such as the Asia-Pacific Economic Cooperation, the establishment of an organization of economic cooperation in the Asia-Pacific region is still at a stage of exchanging views; the phase of substantial deliberation and preparation has not yet arrived.

But the global development of economic integration—especially the external pressure resulting from the EC's plan to form a big unified internal market by 1992 and the formation of the U.S.-Canadian Free Trade Zone, which may be expanded into a North American Free Trade Zone—will undoubtedly promote economic cooperation in the Asia-Pacific region. The actual conditions

of the region, however, make it entirely impossible to establish an entity of economic integration similar to the EC. Even the ground for a loose organization like the OECD is not yet prepared. That is why in recent years the appeals have been concentrated on founding first of all such subregional organizations of economic integration as the "East-Asia Economic Sphere" or the "Northeast Asia Economic Sphere" in the Western Pacific region. I think that the forming of a comparatively small Northeast Asia Economic Sphere in the coming years might meet with less difficulty than the establishment of other economic spheres, and that such a sphere will be conducive to the achievement of mutual complementary combination in resources, capital fund, technology, and labor force by the countries within the sphere and to obtaining better economic results. Meanwhile, mainland China's southeastern coastal area and southern provinces should strengthen their economic ties—on the basis of expanded economic relations with Hong Kong, Macao, and Taiwan—with the ASEAN and Indochinese countries and participate in the economic cooperation of Southeast Asia. When conditions are ripe, China can consider joining the East-Asia Economic Sphere, which will have more participants and cover a larger area.

ECONOMIC COOPERATION IN NORTHEAST ASIA

Northeast Asia is an area with many industrial enterprises, and the economic vigor of the Asia-Pacific region is fully reflected here. China, as a major country in this area, has taken an active part in its economic and technological cooperation. Though there are no official diplomatic relations between China and South Korea, their nongovernmental economic and trade relation has developed smoothly. The nongovernment trade value, only $19 million in 1979, reached $3.8 billion in 1990. Following the normalization of their relations, China and the former Soviet Union have speedily restored and developed their economic, trade, scientific, and technological cooperation. (The trade value in 1989 agreed upon in the government agreements reached SF3.9 billion, and the actual value of the border trade came to SF1.1 billion. Over 20,000 people have gone from China's three northeastern provinces and Inner Mongolia to the former Soviet Union in labor service.) Apart from trade by agreements between the central governments, some of China's border provinces and areas have carried on border trade with the neighboring republics of the former Soviet Union, the DPRK, and Mongolia. Enterprises in some of China's provinces, autonomous regions, and cities have entered into direct cooperation with their counterparts in the former Soviet Union, the DPRK, and Mongolia. China's economic and trade cooperation with Japan has also made rapid progress. So far, Japan has given China a total loan of 1,000 billion yen (about $7.4 billion)— 16.2 percent of the sum total of loans China has received from foreign countries. In 1988, the bilateral trade value between China and Japan came

to as much as $19.3 billion, 2.8 times greater than the figure of 1978, which amounted to about 20 percent of China's foreign trade value that year. Though the Japanese investment in China forms just 1 percent of its total investment abroad, the absolute amount has reached about $2.4 billion, 12.6 percent of the total foreign investment in China. In recent years, the development of mutual trade and technical cooperation has been rapid in other countries of the region as well.

But the potential of the economic cooperation in Northeast Asia is far from being tapped in full, and the formation of a Northeast Asia economic cooperative body is just being contemplated. The relevant countries should take further steps to promote economic cooperation in the body as soon as possible. Certainly the possibility of founding such a body is feasible. This is because there exist the following favorable conditions.

First, the resources and industrial structures of the countries in the area are highly complementary. Japan and South Korea, for instance, have obvious superiority in capital and technology, but are handicapped by poor natural resources, high cost of labor, and short supply of labor. The former Soviet Union's eastern part boasts very rich natural resources, but it has only a sparse population and suffers a serious shortage of labor and a deficiency of capital and technology. China has a huge work force, cheap labor, and a relative superiority in certain natural resources and technologies, but it lacks capital. The DPRK and Mongolia also have relative superiority in some resources, but they too lack capital and technologies. As far as the level of their industrial structure is concerned, Japan ranks first in the area, South Korea takes second place, and China, the DPRK, the eastern part of the former Soviet Union, and Mongolia belong roughly in the third position. There exits a great complementarity in this respect as well.

Second, political relations among the countries of the area have changed markedly for the better. China and the former Soviet Union have normalized their relations. The northern and southern parts of Korea have begun high-level dialogues. The former Soviet Union and South Korea have formally established diplomatic relations. China and South Korea have set up nongovernmental trade agencies. The DPRK and Japan have begun talks to establish diplomatic relations. Gorbachev's visit to Japan improved relations between the former Soviet Union and Japan, though the dispute over the northern territory has not yet been resolved. These political developments fully show that the mutual relations of the countries in this area have improved and that a better political environment has been created for economic cooperation among them.

Third, the countries of the area have all clearly indicated their wish to cooperate. Over the years, supported by the governments of the region, nongovernmental international symposia concerning economic cooperation in Northeast Asia have been held more than ten times. Officials and scholars have not only voiced their desire to cooperate, but have set forth many ideas to form

"the Northeast Asia Economic Sphere," "the Sea of Japan Rim Economic Sphere," "the Yellow Sea Rim Economic Sphere," or "the Yellow Sea and Bohai Sea Rims Economic Sphere."

Of course there are also some obvious unfavorable conditions. First, the countries of the area have different political and economic systems, and wide disparity exists in the degrees of their opening to the world. Second, certain historical disputes have not been resolved so far (though political relations among these countries have improved) and there are no diplomatic relations between certain countries. But as a whole, the favorable conditions outweigh the unfavorable ones. Provided full deliberation is held and practical feasibility studies made, a Northeast Asia economic cooperative body can still be founded in the not too distant future.

What sort of economic cooperative body should be set up in the area? I offer these preliminary views for your consideration:

1. It should be neither a close trading bloc nor a forum or club in which scholars gather for idle talk. It should be an economic cooperative group of substance and regular membership.

2. At the initial period, the scope of the contemplated sphere had better be limited to Japan, South Korea, the DPRK, Mongolia, the eastern part of the former Soviet Union, and China (mainly its northern provinces, Jiangsu and Shanghai, and the coastal provinces and cities north of them).

3. The level of cooperation can be elevated step by step. At the beginning, the following content should be included in the cooperation: (1) coordinate the economic policies of the member countries, especially the trade and exchange rate policies; (2) introduce partial tariff preference; (3) coordinate and plan jointly the setting up of special economic zones and economic development zones in the member countries; (4) organize bilateral and multilateral industrial and agricultural projects for joint exploitation; (5) build seaports and airports in a coordinated way and develop land, water, and air transport and tourist facilities; (6) set up a Northeast Asia development fund; (7) start a Northeast Asia economic and trade personnel training center; and (8) deal with problems of environmental protection in this area.

4. It is urgent to set up a Northeast Asia Economic Cooperation Commission (NEAECC), consisting of government officials, scholars, and enterprise managers in six countries of the region, dealing practically with the design of the goals, constitution, and cooperative development steps for the Northeast Asia economic cooperative body. It will be similar to PECC in the form of its constitution.

5. An alternative, smaller sphere can be considered if the foregoing sphere composed of China, Japan, the former Soviet Union, Mongolia, the DPRK, and South Korea cannot possibly be established in the near future due to obstacles. China, South Korea, and Japan, for instance, may form a Yellow Sea and Bohai Sea Rims Economic Sphere including mainly the western coastal areas of South Korea, Kyushu of Japan, and Liaoning, Hebei, Shandong, and

Jiangsu provinces and Beijing, Tianjin, and Shanghai municipalities of China. Or China, the former Soviet Union, and the DPRK may absorb capital from other countries and develop together the Tumen Delta. As it is small in scope, the countries concerned have shown enthusiasm for the joint exploitation. Besides, the United Nations Development Program takes interest in such projects and may give its support. Therefore, when contemplating the setting up of bigger subregional economic cooperative bodies, we should also carry out necessary studies about multilateral cooperation on a smaller scale.

In short, I think there are considerable prospects for economic cooperation in the whole Northeast Asia region or at least smaller multilateral cooperation in the area. Discussions are necessary, and feasibility studies are also indispensable, but what is even more important is action. It is high time that we consider taking practical action.

NOTE

1. John W. Sewell and Stuart K. Tucker, *Growth, Exports, and Jobs in a Changing World Economy*, U.S. Overseas Development Council, p. 207.